

## Fitch Rates Jay Street Market Value CLO Senior Notes 'BBB(sf)'

Written by Australian Business

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NEW YORK--( [BUSINESS WIRE](#) )--Fitch Ratings assigns the following rating to senior secured notes issued by co-issuers Jay Street Market Value CLO I LTD. and Jay Street Market Value CLO I Inc. 'BBB(sf)':

--Class A variable funding notes, due 2016 in an amount up to \$210,000,000.

Fitch is not rating the subordinated class B notes, or the preference shares.

Jay Street market Value CLO I Ltd. is a special purpose vehicle with limited liability under the laws of the Cayman Islands and Jay Street Market Value CLO I Inc. is a special purpose vehicle created in May 2006 with limited liability under the laws of Delaware (together, Jay Street). Jay Street was created in May 2006 to acquire investments through issuing notes and equity. DA Capital LLC (DA Capital) is the investment manager and responsible for day-to-day operations of Jay Street including managing the portfolio of investments, managing compliance with indenture requirements and generally setting and executing investment and leverage strategies.

### RATING RATIONALE

The rating reflects the structural protections to senior note holders provided by the note indenture and other legal documents including: maintenance of covenanted overcollateralization (OC) tests, restrictions on portfolio concentration, and mandatory deleveraging or portfolio re-allocation if there is a breach in the OC tests. The rating also reflects the current levels of OC, and the capabilities of DA Capital as investment manager.

### KEY RATING DRIVERS

-- Sufficient asset coverage at the assigned rating level relative to Fitch's published criteria;

-- The structural protections afforded by mandatory de-risking and de-leveraging provisions in the event of OC declines;

-- The legal and regulatory parameters that govern Jay Street's operations;

-- The capabilities of DA Capital as the investment manager.

## LEVERAGE

As of 09 June 2014, Jay Street had total assets of approximately \$305 million compared with \$210 million of rated class A notes (66% of total assets). The class A notes are the senior debt obligations of Jay Street and are secured solely by the portfolio assets. Stated maturity on the notes is April 11, 2016. See rating sensitivity section for Fitch's analysis of rollover risk.

## STRUCTURAL PROTECTIONS

The terms of the notes require that OC be maintained above a minimum threshold. OC is calculated as the excess of the market value of assets haircut by prescribed advance rates over the outstanding notional amount of notes. OC test compliance is tested on a daily basis and Jay Street is in compliance with the requirement when the advanced market value of assets is greater than the notional amount of notes (i.e. tested with OC tests). The terms of the notes also require minimum levels of issuer and industry diversification of the portfolio.

Should the advanced market value of assets decline below the amount of outstanding notes, the fund manager must cure the breach by altering the composition of the portfolio toward assets with higher advance rates, or by reducing leverage in a sufficient amount. A breach must be cured within 10 business days. A continuing breach of the OC Test constitutes an event of default which imposes upon the Trustee certain duties including

the liquidation of assets to redeem the notes after the controlling class provides liquidation direction or within five business days following the OC Test cure period. Fitch estimates that the maximum exposure period noteholders face to market value risk is 16 business days, which is less than the typical liquidation period underpinning the advance rates applied in Fitch's criteria.

The Trustee is not required to liquidate the assets if 100% of senior/subordinated noteholders and 100% of preference shareholders consent in writing not to liquidate. While possible, Fitch views this scenario as remote relative to the assigned rating and did not factor this scenario into the analysis.

Jay Street is not required by transaction documents to follow a set plan to increase fund liquidity or segregate liquid assets in a separate account to build liquidity ahead of maturity of the notes. Given that there are no structural provisions requiring an increase of liquidity, Fitch will begin to monitor portfolio liquidity six months prior to maturity. See rating sensitivities section for rating implications.

The provisions of the OC tests (including advance rates, diversification requirements, exposure period and eligible investments) were consistent with the guidelines described in Fitch's closed-end fund criteria at the 'BBB' rating level.

### OVERCOLLATERALIZATION

As of June 9,, 2014, OC coverage as calculated in accordance with the Fitch total and net OC tests (Fitch OC tests) per the 'BBB' rating guidelines outlined in Fitch's closed-end fund criteria, were in excess of 100%. Jay Street was also passing the existing covenanted OC Tests and all portfolio restrictions.

### STRESS TESTS

Fitch performed various stress tests on Jay Street's current portfolio to assess the strength of the structural protections of the notes. These tests included determining various

'worst case' scenarios where Jay Street's portfolio was concentrated in assets where the advance rates prescribed in the transaction documents are less conservative than those outlined by Fitch's criteria and the portfolio became more concentrated by industry.

For example, the portfolio was stressed by assuming higher investments in non-performing loans, while simultaneously migrating the rest of the portfolio to loans of lower credit quality. The results of the stress tests indicate the structural protections of the notes at the 'BBB' rating level provide a reasonable cushion. The portfolio composition would need to change significantly relative to current and historical composition before the credit quality of the notes could be negatively impacted.

### PORTFOLIO PROFILE

Jay Street has target portfolio allocations of 60% to 80% in bank loans, 15% to 20% in high yield bonds and 10% to 20% in special opportunity investments.

As of April 30, 2014 the portfolio comprised primarily senior secured bank loans (approx. 84%) and high yield corporate bonds (approx. 10%), with the balance in cash, high yield sovereign bonds and common equity. The largest industry exposures were to Energy (Oil & Gas); Automobiles, Building and Materials, Chemicals; and Computers and Electronics, Telecommunications. All issuer concentrations were below 4%.

Fitch views the current liquidity of the portfolio sufficient to meet future commitments from loan investments, including those that are currently only partially funded, as well as to meet note interest payments.

### THE ADVISOR

DA Capital was established in 2005. As of Dec. 31, 2013, DA Capital had approximately \$392 million in assets under management across hedge funds and CLO products. DA Capital has experience managing CLOs and has managed nearly \$3 billion in CLOs since 2005.

## PERFORMANCE ANALYTICS

Fitch will monitor the transaction regularly and as warranted by events. Events that may trigger a review include, but are not limited to, the following:

--Significant changes to portfolio composition;

--Breach in any OC test;

--Future changes to Fitch's rating criteria.

Surveillance analysis is conducted on the basis of the then-current portfolio of assets. Fitch's goal is to ensure that the assigned ratings remain an appropriate reflection of the issued notes' credit risk.

## RATING SENSITIVITIES

The rating may be sensitive to material changes in the credit quality or market risk profiles of the funds. The rating reflects the latitude of the manager to change portfolio allocations over time. However, significant changes to the investment strategy or portfolio composition, such as shifts to much lower credit quality or much greater allocations to distressed issuers could have negative rating implications. A material adverse deviation from Fitch guidelines for any key rating driver could cause the rating to be lowered by Fitch.

The rating is based on the terms of the notes stipulating mandatory collateral maintenance and de-leveraging provisions in the event of declines in OC. Should a breach in the OC test not be cured with the 10 business day cure period, or 100% of the class A

and class B noteholders and preference shareholders direct the trustee not to liquidate assets upon an event of default, this may lengthen exposure to market value risk and cause the ratings to be lowered by Fitch.

The notes have a stated maturity of April 11, 2016. Fitch will review how the manager prepares for maturity, by building liquidity, or replacing through alternative funding. If three months prior to maturity the portfolio has not built more liquid investments and general liquidity in the secondary loan and high yield bond markets is low due to market conditions this may lead to negative rating pressure.

For additional information about market value structure ratings guidelines, please review the criteria referenced below, which can be found on Fitch's website.

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

The sources of information used to assess this rating were the public domain, DA Capital and Barclays Capital Inc.

Applicable Criteria and Related Research:

--'Rating Market Value Structures' (Aug. 14, 2013);

--'Rating Closed-End Fund Debt and Preferred Stock' (Aug. 14, 2013).

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#### Rating Market Value Structures

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#### Additional Disclosure

#### Solicitation Status

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